

**REPORT OF THE AUDIT OF THE  
MCCRACKEN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2008**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MCCRACKEN COUNTY SHERIFF**

**For The Year Ended  
December 31, 2008**

The Auditor of Public Accounts has completed the McCracken County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$51,528 from the prior year, resulting in excess fees of \$1,533,688 as of December 31, 2008. Revenues decreased by \$36,088 from the prior year and expenditures increased by \$15,440.

#### **Report Comments:**

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

#### **Deposits:**

The Sheriff's deposits as of March 31, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$16,594



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Van Newberry, McCracken County Judge/Executive  
The Honorable Jon Hayden, McCracken County Sheriff  
Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of McCracken County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 14, 2009 on our consideration of the McCracken County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Van Newberry, McCracken County Judge/Executive  
The Honorable Jon Hayden, McCracken County Sheriff  
Members of the McCracken County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

This report is intended solely for the information and use of the Sheriff and Fiscal Court of McCracken County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized flourish at the end.

Crit Luallen  
Auditor of Public Accounts

August 14, 2009



MCCRACKEN COUNTY  
JON HAYDEN, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Grants		\$	3,686
State - Kentucky Law Enforcement Foundation Program Fund			143,180
State Fees For Services:			
Finance and Administration Cabinet	\$	67,527	
Juvenile Transports		297	
Mental Health Transports		15,479	
Sheriff Security Service		59,305	142,608
Circuit Court Clerk:			
Fines and Fees Collected		32,405	
Court Ordered Payments		83	32,488
Fiscal Court			94,288
County Clerk - Delinquent Taxes			5,510
Commission On Taxes Collected			892,042
Fees Collected For Services:			
Auto Inspections		44,320	
Accident and Police Reports		3,452	
Serving Papers		149,080	
Carrying Concealed Deadly Weapon Permits		8,120	
Arrest Fees		10,220	
Miscellaneous		5,753	
Fingerprinting and Photos		1,192	222,137
Other:			
Second Notice Fees			114,518
Interest Earned			8,118
Total Revenues			1,658,575

The accompanying notes are an integral part of this financial statement.

MCCRACKEN COUNTY  
 JON HAYDEN, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2008  
 (Continued)

Expenditures

Operating Expenditures:

Materials and Supplies-

Office Materials and Supplies \$ 77

Other Charges-

Jury Expenses 505

Civils to Other Counties 150

Bank Analysis Fees 1,030

Carrying Concealed Deadly Weapon Permits 2,355

Transporting Fugitives 22,136

Miscellaneous 255

Refunds 300

Bad Debt Expense 105

Grant Expenditures

DUI Grant - Deputy Overtime 3,686

Total Expenditures \$ 30,599

Net Revenues 1,627,976

Less: Statutory Maximum 91,644

Training Incentive Benefit 2,644 94,288

Excess Fees Due County for 2008 1,533,688

Payments to Fiscal Court - Monthly 1,607,504

Balance Due From Fiscal Court (See Note 8) \$ (73,816)

The accompanying notes are an integral part of this financial statement.

MCCRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

McCRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The McCracken County Sheriff participates in a fee pooling system. Fee officials who participate in fee pooling deposit all funds collected into their official operating account. The funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays all operating expenses for the fee official.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent for the first six months and 29.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The McCracken County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

McCRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The McCracken County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On March 31, 2008, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured      \$16,594

Note 4. Drug Forfeiture Account

The McCracken County Sheriff maintains a Drug Forfeiture Fund. The account is funded by court-ordered forfeitures of money or funds received from the sale of forfeited assets, interest received on deposits of forfeiture funds, as well as certain court-ordered contributions. The funds are to be used for various law-enforcement operations, equipment, and education. As of January 1, 2008, the Drug Fund had a balance of \$56,739. During the year, receipts from forfeitures, contributions, and interest totaled \$132,497, and disbursements of \$74,625 were made for law-enforcement equipment and support. A balance of \$114,611 remained in the Drug Fund at December 31, 2008.

Note 5. Federal Drug Fund

The McCracken County Sheriff maintains a Federal Drug Fund for its federal equitable sharing program. The account is funded by federally forfeited cash, property proceeds, and any interest earned thereon, which are equitably shared with participating law enforcement agencies. The funds shall be used for law enforcement purposes in accordance with the statutes and guidelines that govern equitable sharing. As of January 1, 2008, the fund had a balance of \$21,710. During the year, receipts totaled \$2,146, and \$164 was disbursed for law enforcement activities. The fund had a balance of \$23,692 at December 31, 2008.

Note 6. Special Deputy Fund

The McCracken County Sheriff opened a Special Deputy Fund at the end of calendar year 2008. This account is funded by donations made to the McCracken County Sheriff's office. The funds are to be used for purchasing various equipment that is needed. In December of 2008, two donations were received giving the fund a balance of \$1,300 with no disbursements being made. A balance of \$1,300 remained in the Special Deputy Fund at December 31, 2008.

Note 7. Grant

The McCracken County Sheriff received a law enforcement service fee grant from the Kentucky Justice and Public Safety Cabinet during 2008 in the amount of \$3,686. Grant funds were used to fund deputy salaries for overtime incurred for extended law enforcement procedures. All grant proceeds were expended during the year.

McCRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 8. Balance Due From Fiscal Court

During the calendar year, the Sheriff paid October 2008 tax commissions of \$73,816 to his fee account twice. Since he participates in fee pooling, the additional amount was ultimately paid to the McCracken County Fiscal Court. The amount is due from the fiscal court and will be used to reimburse the tax account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Van Newberry, McCracken County Judge/Executive  
The Honorable Jon Hayden, McCracken County Sheriff  
Members of the McCracken County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCracken County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated August 14, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the McCracken County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCracken County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

The McCracken County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the McCracken County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

August 14, 2009

COMMENT AND RECOMMENDATION



MCCRACKEN COUNTY  
JON HAYDEN, SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

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On March 31, 2008, \$16,594 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). We recommend the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response: Additional safeguards will be implemented to assure all accounts are protected.*

